

Scottish Housing Quality Standard Progress Update 2007/08

1. Introduction

1.1 This report provides information about the progress Scottish social landlords are making to achieve the Scottish Housing Quality Standard (SHQS) by 2015. It covers:

- some background to our role and the information we gather;
- the number of dwellings brought up to the SHQS;
- the level of capital investment and source of funds; and
- issues for the sector going forward.

2. Background

2.1. From April 2008 the Scottish Housing Regulator is responsible, on behalf of Scottish Ministers, for monitoring landlords' progress towards achieving the Scottish Housing Quality Standard (SHQS). This is the first SHQS progress report issued by the SHR. It builds on a previous update published by the Scottish Government in January 2008.¹

2.2. Registered social landlords (RSLs) provide information as part of a routine annual performance and statistical return (APSR). Local authorities complete a separate SHQS pro-forma which gives details of properties brought up to the Standard and financial details about investment to meet the SHQS.

2.3. We get SHQS information from 165 RSLs and 20 local authorities, who between them cover almost 90% of the social rented sector stock. Four local authorities are finalising their plans for reaching the Standard². The Scottish Government recently completed an assessment of the Standard Delivery Plans (SDPs) from two local authorities and, therefore, we did not request monitoring information³ from them.

2.4.

¹ http://www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/otcs_017431.pdf

² Highland, Stirling, Renfrewshire and Shetland Islands Councils.

³ City of Edinburgh and West Dunbartonshire Councils

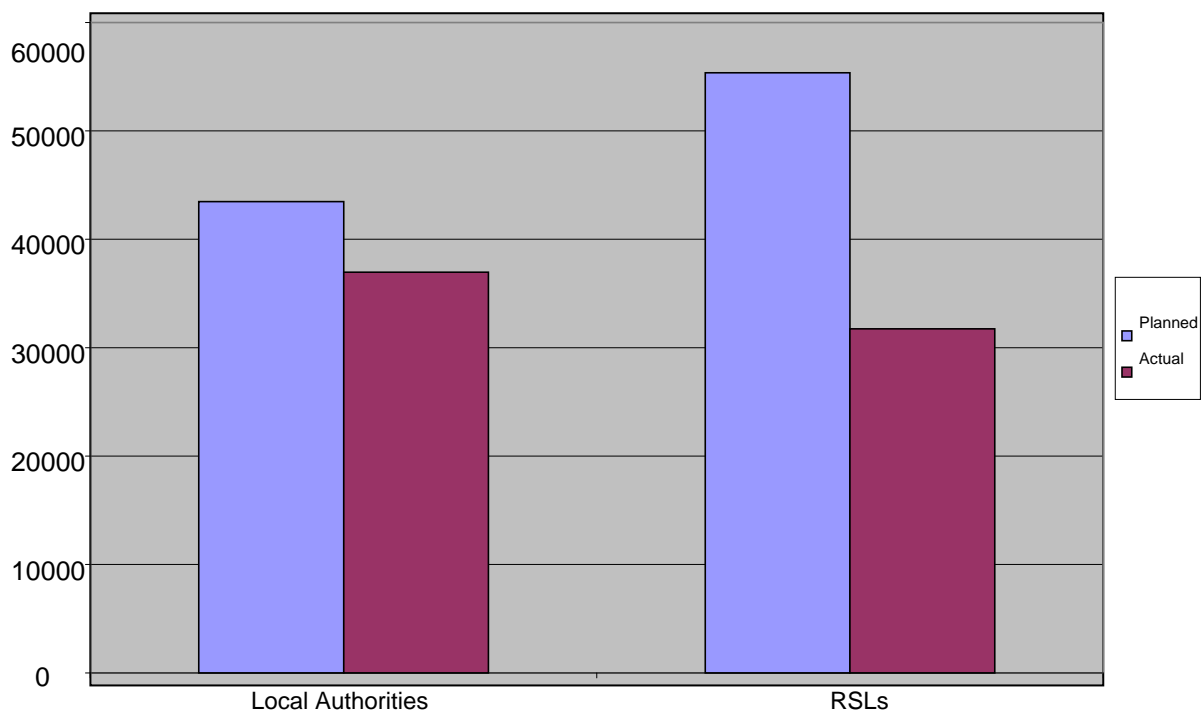
The remaining local authorities have transferred their stock to RSLs and their information is collected as part of the APSR.

3. Dwellings brought up to the Scottish Housing Quality Standard

3.1. Social landlords brought around 37,000 dwellings up to the SHQS in 2007/08. This is around 5,000 more than in 2006/07. Local authorities brought around 16,500 of that total up to the SHQS, and RSLs brought around 20,300 dwellings up to the Standard.

3.2. Over the last two years landlords have told us they have brought nearly 70,000 dwellings up to the SHQS. Local authorities have brought over 37,000 dwellings up to the Standard in that time. This represents good progress. But they are slightly behind target at this stage as they predicted bringing around 43,000 dwellings up to the SHQS. RSLs have brought nearly 32,000 dwellings up to the Standard since 2006. But they are further behind target as they had predicted achieving around 55,000 dwellings (Figure 1).

Figure 1: Landlords' actual vs. planned SHQS progress (2006-07 and 2007-08)

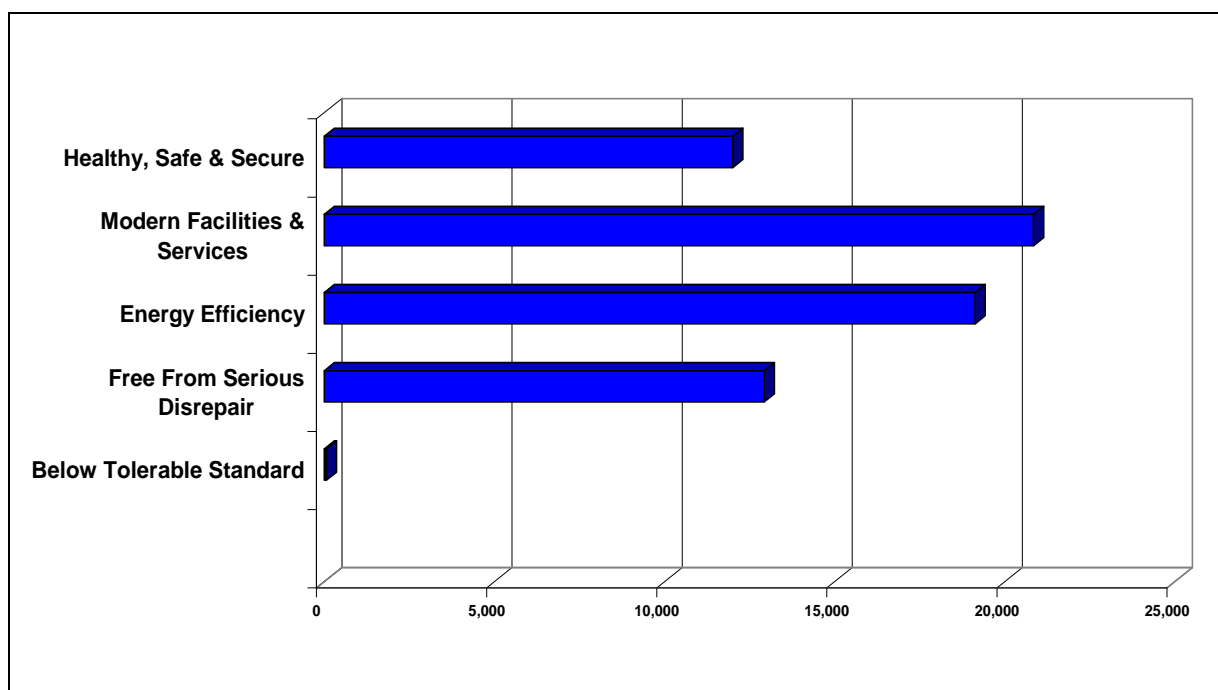


3.3. While Figure 1 suggests that landlords are significantly behind target, we believe this may be partly explained by issues of phasing rather than delivery. Landlords are investing heavily on an element-by-element basis in their stock and, because of this, are not always bringing the entire dwelling up to the SHQS. We expect landlords to monitor progress and review plans on an annual basis, and adjusting targets to take account of progress and any element-by-element phasing.

3.4. Local authorities give us information about their progress against the individual elements of the SHQS. Figure 2 shows the progress being made on an element by element basis. This information is currently not routinely provided by all RSLs. Instead, we will request this from particular RSLs that need to give us greater assurance about their progress.

3.5. Local authorities are making greatest progress in the “modern facilities and services” element of the SHQS. Over 20,000 dwellings have been brought up to this element of the SHQS, with significant investment in new kitchens and bathrooms. And investment in new central heating systems is reflected in the number of dwellings (almost 20,000) that landlords say are being brought up to the energy efficiency element of the SHQS.

Figure 2: Local authorities' progress towards SHQS by stock element (2007-08)



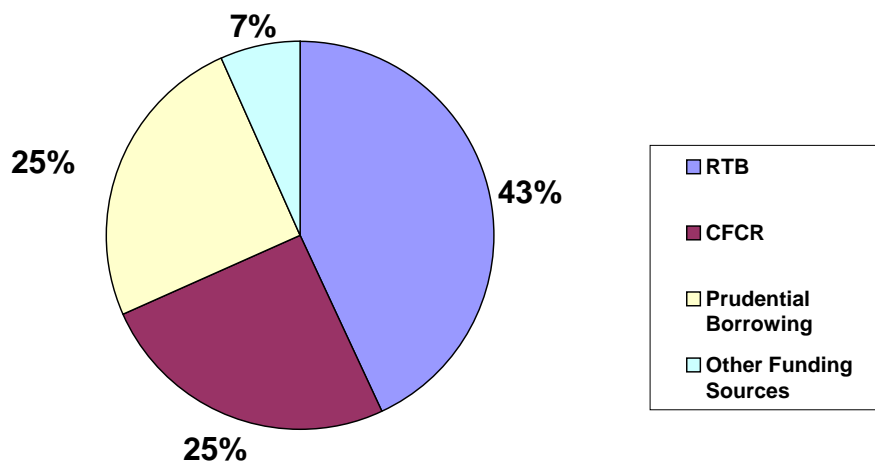
4. Capital Investment to meet SHQS

4.1. Social landlords invested around £632m in their stock (excluding fees and VAT where applicable). According to the 20 local authorities who gave us monitoring information, they spent almost £208m during 07/08 to meet the Standard. This is around £20m more than they projected spending. Local authorities also spent around £100m on non-SHQS investment. This covers expenditure on areas such as environmental improvements and work to dwellings which does not contribute to them meeting the SHQS. This spending was just under £20m less than predicted, showing a small shift of investment towards SHQS.

4.2. RSLs spent around £324m in planned maintenance to their stock. RSLs do not separately report expenditure on meeting the SHQS. But if we assume that the same percentage of maintenance expenditure as in local authorities is used for reaching the SHQS, we can estimate that RSLs spent £217m on bringing their stock up to the Standard. In total therefore, landlords in Scotland spent around £425 for this purpose, reflecting the importance landlords attach to ensuring their stock meets the Standard.

4.3. Figure 3 below outlines local authority funding sources to meet the SHQS. It shows that just over 40% of SHQS funding is from Right-to-Buy (RTB) receipts. Of the remainder, one quarter of the funding comes directly from capital from current revenue (CFCR) and a further quarter from prudential borrowing respectively. Around 7% is from other funding sources.

Figure 3: Sources of local authority funding for SHQS investment (2007-08)



4.4. Some local authorities are more reliant than others on RTB receipts as a source of funding, ranging from 10% to over 97%. However, the monitoring information has shown a decline in RTB sales in comparison to projected figures in original Standard Delivery Plans (SDPs). Local authorities predicted using over £7m of RTB receipts to fund SHQS improvements. The actual figure used for SHQS improvement was, however, only £4.8m.

Table 1: Sources of funding for Local Authority capital investment for SHQS

Funding Source	2006/7	2007/8
RTB Receipts	48%	43%
Capital from Current Revenue	27%	25%
Prudential Borrowing	20%	25%
Other	5%	7%

4.5. Table 1 demonstrates that local authorities have reacted to the fall in RTB income by borrowing more: sixteen of the twenty local authorities who provided us with monitoring information indicated that they had sold fewer properties under the RTB than predicted in their SDP, although sale prices exceeded the prediction. Overall, local authorities' income from RTB sales was down by around £7m – an analysis of HRA capital receipts showed a even steeper decline, by £28m. In consequence, local authorities have reduced the proportion of SHQS funding from RTB receipts from 48% to 43% whilst borrowing increases by the same amount, from 20% to 25% between 2006/7 and 2007/8.

4.6. No local authority is solely reliant on one source of funding. The spread of funding sources between authorities reflects their different circumstances in terms of ability to borrow, raise rents, access other funding sources or achieve RTB sales.

5. Registered Social landlords

5.1. As noted above, in 2007/78 RSLs brought around 20,000 dwellings up to the SHQS.

This is more than double the number from the previous year.

5.2. Glasgow Housing Association (GHA) has a significant impact on SHQS achievement within the RSL sector. For example, GHA accounted for 25% of the total number of dwellings brought up to Standard (2,686 dwellings) in 2006/07. This proportion doubled to 50% (10,455 dwellings) in 2007/08. This explains why the RSL sector has brought more dwellings up to the Standard than the local authority sector and why the number of dwellings being brought up to the SHQS has doubled since last year.

5.3. RSLs are not immune from the consequences of falling RTB sales. Although in general the sector is less reliant on RTB sales as a source of income, some individual RSLs are still heavily dependant on sales. From their Annual Accounts we can see that property sales make up around 3% of the sector's turnover. But for 20 RSLs property sales amount to a very significant part of their total income. Given the current property market, some RSLs face falling RTB sales and will need to use other income sources, such as increased rents or borrowing, or use reserves they may have.

5.4. RSLs reported in a survey conducted in January 2009 that they need around £610m to meet the requirements of the SHQS by 2015. Of this, around £400m is forecast to be available from internally generated surpluses, while existing debt facilities are expected to contribute an additional £170m. This leaves around £40m to be funded by new debt facilities. Eighteen RSLs tell us they are relying on new private finance to meet the Standard.

6. Issues for the sector

These are the key issues facing the sector moving forward to achieve SHQS by 2015:

- 6.1. Landlords must be satisfied that they have sufficiently robust information about the quality of their stock. On some of our recent inspections we have found significant deficiencies in stock quality information and estimates.
- 6.2. The current economic downturn will affect the funds available for SHQS compliance, through fewer land and stock sales, a less benign private lending market, and possibly more constrained rental growth and higher bad debts. Landlords will face tough choices about where scarcer resources should be spent. They should be reviewing and stress-testing the underpinning assumptions in their business and SHQS delivery plans and should consider how to secure greater procurement and other efficiencies to maximise available funds for SHQS.
- 6.3. Landlords are not keeping pace with the targets they have set themselves for bringing dwellings up to the Standard. Sometimes this is due to over-optimism about what can be achieved. Often it is because, in terms of sensible operational programmes, work is organised around particular elements of SHQS compliance across properties rather than around whole dwelling investment. Landlords need to review and set realistic targets, make sure the elements come together in time to meet the Standard by 2015, and manage the risks associated with back-loaded programmes in the last few years.
- 6.4. The Scottish Government is developing its policy on exemptions. Landlords should consider whether they wish to apply for exemptions when the policy has been fully laid out. Certain aspects of exemptions on the basis of 'disproportionate cost' have been in the public domain for a number of years. And feedback from landlords suggests that exemptions may also be required when other owners in mixed tenure buildings do not agree to changes or will not contribute towards investment required to common areas.

7. Conclusion and next steps

- 7.1. From the information submitted to us by landlords in 07/08 it is clear that landlords continue to make progress towards the SHQS. Around 37,000 dwellings were brought up to the SHQS last year, which means many more tenants are now benefiting from good quality accommodation.

- 7.2. Neither local authorities nor RSLs are insulated from recent economic difficulties and many of the assumptions about operating costs, rents, levels of borrowing, arrears, demand and sales that were built into original SDPs will need to be reviewed to ensure progress continues to be made. This uncertainty makes it difficult to predict accurately what impact the current economic, financial and market downturn will have on the ability of social landlords to meet the SHQS.

- 7.3. With this in mind, we will ask all landlords to continue to submit their annual progress updates to us, and to prepare for a comprehensive update return in summer 2010. This will give landlords time to take account of changing economic circumstances and improve their stock condition information to provide up-to-date and realistic returns for our comprehensive progress review in 2010.